National Bank of Malawi ECONOMIC Newsletter

September 2017

Growth

Exchange Rates

Inflation

Interest Rates

GROWTH

Real GDP growth is expected to rebound from 2.7% recorded in 2016 to 6.1% in 2017 according to first round estimates from the Ministry of Finance, Economic Planning and Development. This growth will mainly emanate from growth in agriculture which is expected to expand by 6.8% from a contraction of -0.2% recorded the previous year.

Exit real GDP growth numbers for 2017 are, however, likely to be revised downwards to about 4.5% on the back of lower than forecasted aggregate expenditure. Agriculture commodity prices have slumped in the current year resulting in low disposable income for the majority of the population. Industry low capacity utilization due to the planned power outages by ESCOM is also expected to negatively affect growth in the fourth quarter.

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Real GDP Growth
2.7%

Expected to rebound to

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Real GDP Growth
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EXCHANGE RATES

Although the country experienced a short tobacco auction season realizing US$212.5 million (py US$276.4million) in exports, the Kwacha is still expected to remain stable at about MK725/1US$. The currency will be supported by the strong reserves position which has been in excess of 3 months of imports throughout the year. The US$84million injection of budget support from the World Bank is also expected to boost confidence in the currency market and limit speculation within what is traditionally a lean period.

The monetary authorities therefore finds themselves in a position where they need to balance between supporting commercial banks during temporary peaks of demand for foreign currency and avoiding a strong Kwacha which may not augur well for the country's international competitiveness in the long term.

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INFLATION

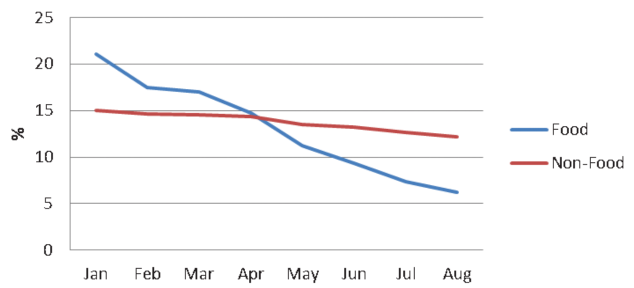
Latest headline inflation statistics for August 2017 indicate inflation is at 9.3% down 0.9 percentage points from the previous month (August 2016: 22.8%). Urban and rural rates stand at 8.9% and 9.8% respectively.

Overall non-food inflation has declined from 12.7% in July 2017 to 12.2% in August 2017 while food inflation has declined from 7.4% to 6.2% over the same time period.

Much of the decline in inflation can be attributed to the decline in food inflation which has plummeted by 14.9 percentage points compared to non-food inflation which has only dropped by 2.8 percentage points in the year to date. The economy is therefore exhibiting inherent upward pressure in prices mainly emanating from the household/clothing expenditure and hotel/restaurant subsectors.

August 2017 Inflation 9.3%

2017: FOOD VS NON FOOD INFLATION TREND



INTEREST RATES

The prevailing relatively low and declining inflation trajectory continues to offer further scope for interest cuts. Whilst this continues to be the case, the monetary authorities are likely to maintain the bank rate at current levels until the effects of the July 2017 adjustments filter through the economy.

Much of the current debate will therefore continue to centre on the interest rate spread currently at 10%. The major Commercial Banks recently moved to reduce the interest rate spread which hitherto was over 15%. Further narrowing of interest rate spreads is going to be difficult to achieve given the relatively high fixed costs of commercial banking in Malawi compared to the region. Due to poor data connectivity and lack of consistent power, local banks are forced to maintain duplicate back up and standby utility services thus raising the cost of service provision. →

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INTEREST RATES

←The picture is complicated by increasing incidences of non-performing loans exacerbated by a tardy process to perfect collateral coupled with high costs of enforcement of collateral remedies. There has also been a deterioration of quality standards by third party service providers such as collateral managers which possibly has led to a culture of deliberate defaults with the knowledge that the litigation process can be 'managed'. Current LRR requirements which from 2015 started to include foreign exchange deposits also drive a wedge between deposit and lending rates as they effectively increase idle money balances held by the Reserve Bank. Competition and efficiency gains within the commercial banking sector likely to be the main driver in spread reductions going forward.

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SELECTED ECONOMIC INDICATORS

INDICATOR	UNIT	2016	2017	2018	2019
GDP at current market prices	MK billion	3,919	4,648	5,383	6,187
GDP at constant prices	%	2.7	6.1	5.0	5.5
Population	million	14			
GDP Deflator	%	19.7	13.5	10.4	8.9
Inflation (average)	%	21.7	145	11.7	9.9
Bank rate	%	22	18	15	15
Money supply (M 2)	% CHANGE	15.2	18.6	17.1	16.9
Import Cover	Months	2.9	3.0	3.1	3.3
Foreign debt	% GDP	35.4	32.3	30.1	29.2
Domestic debt	% GDP	54.3	49.9	48.9	47.2
Fiscal balance	% GDP	-6.8	-5.4	-3.6	-2.8
Current account	% GDP	-13.5	-9.3	-8.2	=7.8

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